

ORIGINAL

THE STATE



OF WYOMING

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JIM GERINGER
GOVERNOR

Public Service Commission

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STEVE FURTNEY
COMMISSIONER

STEPHEN G. OXLEY
SECRETARY AND CHIEF
COUNSEL
DAVID M. MOSIER
ADMINISTRATOR

October 29, 1998

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FCC MAIL ROOM

Ms. Magalie Roman Salas, Secretary
Federal Communications Commission
1919 M Street N.W., Room 222
Washington, D.C. 20554

RE: Federal-State Joint Board on Universal Service
CC Docket 96-45

Dear Ms. Salas:

On the afternoon of October 29, 1998, Commissioner Steve Furtney of the Wyoming Public Service Commission (Wyoming Commission) and Denise K. Parrish, Supervisor of Rates and Pricing on the staff of the Wyoming Commission, met with Texas Public Utilities Commission Chairman Pat Wood and Martha Hogerty, Esq., Public Counsel for the State of Missouri, both of whom are members of the Federal-State Joint Board on Universal Service, at the Federal Communications Commission's offices in Washington, D. C. Commissioner Furtney and Ms. Parrish discussed activities which have been undertaken in Wyoming to promote competition in local telecommunications markets and to preserve and advance universal service. The dialogue included discussion of, among other subjects, loop costs, forward-looking and embedded cost paradigms, implicit subsidies in emerging competitive markets, and the possible effect on the federal universal service fund if Wyoming's proposal for federal universal service fund support were adopted. They discussed the goals of maintaining and improving infrastructure and encouraging investment in the network. Chairman Wood and Ms. Hogerty were provided with copies of the earlier letter sent to her and of the presentation made recently by Commissioner Furtney at a meeting of the U S WEST Regional Oversight Committee. Copies of these documents, as used during the meeting, are attached.

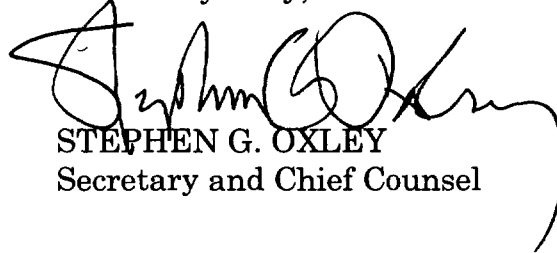
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In accordance with Section 1.1206(a)(2) of the Commission's Rules, the original and one copy of this letter are being filed with your office for inclusion in the public record for the above-mentioned proceedings. Acknowledgment of date of receipt of this transmittal is requested. A duplicate of this letter is provided for this purpose. Thank you for your consideration.

Please contact me if you have any questions.

Yours very truly,

A handwritten signature in black ink, appearing to read "Stephen G. Oxley", with a long, sweeping horizontal line extending to the right.

STEPHEN G. OXLEY
Secretary and Chief Counsel

cc: The Honorable Pat Wood
Martha Hogerty, Esq.

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MEMORANDUM

TO: The Honorable Pat Wood
Chairman, Texas Public Utilities Commission

Martha Hogerty, Esq.
Public Counsel, State of Missouri

FROM: Commissioner Steve Furtney

DATE: October 29, 1998

RE: Universal service funding in Wyoming

Thank you for meeting with me and Denise Parrish of our staff this afternoon to discuss the universal service funding situation in Wyoming and the strong challenges to affordability which we will face in the near future. We appreciate this opportunity to confer with you about the universal service problems which we must solve.

The attached material describes Wyoming's problem in some detail. It contains some of the basic data illustrating how Wyoming has addressed the opening of its telecommunications markets to competition, its movement to forward-looking economic cost-based rates and its elimination of interclass rate subsidies. We have also created a functioning state universal service fund which already provides assistance to subscribers in Wyoming.

Wyoming is a high cost state with a small subscriber base and no large or dense markets to defray universal service costs. Because it would be so extremely difficult for Wyoming to fund its explicit support requirements by itself, we look to you for your understanding and assistance as we work with the Joint Board and the Federal Communications Commission to obtain affirmative federal universal service support.

We would be pleased to answer any further questions and provide any additional information which you might desire. Thank you for listening.

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MEMORANDUM

TO: The Members of the Federal-State Joint Board on Universal Service

DATE: September 22, 1998

RE: The Wyoming Proposal and Request for Federal Universal Service Support

In the attached material, we present to you Wyoming's proposal for universal service support for local basic service rates. We hope that you will review it and share our sense of urgency that decisive steps must be taken and taken soon. We hope you will consider our proposal favorably.

We have also provided a discussion of the basic facts and figures which show how Wyoming has been diligent and conscientious in opening its markets to competition, moving access to long-run incremental costs, identifying its true economic costs of service and reflecting them in rates. We have removed implicit subsidies from rates and have set up a functioning state universal service fund which provides help to Wyoming subscribers.

Wyoming is a very high cost state with the smallest subscriber base in the nation and no large markets. Its high costs are therefore very persistent. Before the end of the year, over 90% of our subscribers will be faced with rates that reflect the high forward-looking economic costs which we have discussed. You will see examples of the results of this process.

The practical conclusion is that it will be extremely difficult for Wyoming to fund its explicit subsidy needs itself. Costs are too high and the market is too small. Active federal universal service support is needed, and it is needed in the very near future. We hope that you will understand our situation and agree that support is merited.

Sincerely,

Handwritten signature of Steve Ellenbecker in cursive.
STEVE ELLENBECKER
Chairman

Handwritten signature of Kristin H. Lee in cursive.
KRISTIN H. LEE
Deputy Chair

Handwritten signature of Steve Furtney in cursive.
STEVE FURTNEY
Commissioner

THE WYOMING PROPOSAL AND REQUEST

THE FEDERAL AND STATE COMMISSIONS SHOULD FORM A PARTNERSHIP TO KEEP RATES AFFORDABLE.

No economic cost-based, local rate should exceed \$25 per month before it is supported by state and federal universal service funds. (Alternatively, the capped local rate should be established at the nationwide average residential rate or the nationwide average local service economic cost in order to meet the federal Act's affordability and comparability test.)

The level of the capped local rate should be established recognizing that added to this rate are surcharges and taxes that add another \$5 to \$10 to the local bill (e.g., the subscriber line charge, 9-1-1, telecommunications relay, etc.)

The affordability rate that is established should recognize customer input and avoid the risk of decreasing subscribership levels.

Section 254 of the federal Act clearly anticipates a federal-state partnership regarding universal service and affordability issues.

THE FEDERAL-STATE PARTNERSHIP SHOULD RECOGNIZE THE LOW POPULATION BASE OF SOME STATES.

Some of the rural, high-cost, low-population states will not have the ability to support all of its explicit subsidy needs as implicit subsidies are removed from rates and rates are changed to accurately reflect their costs. Thus, the state surcharge needed to support the high-cost needs of a state should be capped at 5% of retail rates, with the surcharge applied to all services that use the public switched network. The remaining support should be funded through a federal fund.

UNIVERSAL SERVICE FUNDING SHOULD BE EXPLICIT AND IDENTIFIABLE ON CUSTOMER BILLS.

Both the surcharge necessary to fund support to high-cost customers and the credit showing the amount of support provided to the customer should be shown on the customer's bill in a manner that makes the support quantifiable and identifiable.

Federal support may be distributed to either state commissions or directly to companies, with the understanding that the funds will immediately be passed on to end users to support high, economic cost-based rates.

UNIVERSAL SERVICE FUNDS SHOULD SPECIFICALLY BE DIRECTED TO SUPPORT LOCAL SERVICE RATES.

While there is no disagreement that access charges should be moved or transitioned to economic costs, universal service funds should not be retained by the interstate jurisdiction for the purpose of offsetting the price of interstate switched access on a dollar for dollar basis. Rather, universal service funds should be used to keep local service rates affordable.

THE WYOMING PROPOSAL AND REQUEST

FOR STATES THAT HAVE: MOVED ACCESS TO LONG-RUN, INCREMENTAL COSTS; REBALANCED LOCAL RATES TO RECOVER ECONOMIC COSTS; AND OPENED LOCAL MARKETS TO COMPETITION, SPECIAL EXPEDITED CONSIDERATION SHOULD BE PROVIDED TO KEEP RATES AFFORDABLE.

Some states (specifically, Wyoming) have been working to eliminate implicit subsidies from rates, have taken switched access service to cost, have deaveraged both wholesale and retail rates, and have taken other steps to not only open local markets to competition, but also to make sure competition can thrive. When, as in Wyoming, the underlying cost of service is very high and the market is small, those states may not be able to survive at these cost based local rate levels and internal explicit funding need levels until July 1, 1999. These states will face mounting pressure to return to regulated monopoly prices and conditions without federal support to keep basic service rates affordable.

It should be recognized that some states and companies have taken pro-competitive actions based on federal statutes and orders, and thus, time is of the essence to restructure the federal support levels in a way that provides predictable and sufficient funding. Wyoming passed a pro-competitive state telecommunications law a year ahead of the federal Act. This is no surprise that we may be ahead of many states.

Positive federal involvement in the resolution of this issue cannot slip past the July 1, 1999, date and should be accomplished sooner, if at all possible.

Special expedited treatment, including increasing the level of federal support being provided to keep local rates affordable, should be provided to the states that, like Wyoming, are far ahead of the curve in implementing local competition and rate rebalancing, even if this special treatment involves interim actions or the implementation of a solution on a trial basis.

WHAT DOES WYOMING NEED TO KEEP ITS LOCAL RATES AFFORDABLE?

If local basic service rates are deemed to be unaffordable at levels that exceed \$25 per month, plus surcharges and taxes, which would bring the total realistic bill to about \$35, then an amount of just over \$17,000,000 would be needed to support currently authorized or proposed rates contained in pending cases in Wyoming.

Of this \$17,000,000 amount, at a 5% state surcharge, Wyoming could internally fund about \$8,000,000, leaving about \$9,000,000 to be supported with federal universal service funds. This is a large amount for Wyoming customers to bear; but it is a very, very tiny amount when spread out on a national basis. Otherwise, we are looking at a surcharge in excess of 10% to support universal service on a state basis, thus adding additional cost for basic service to all customer bills.

Additional funds could be needed as additional rate rebalancing cases take place, but those cases would not have the same urgency as the pending cases, given that orders are due in pending cases by the end of 1998.

THE WYOMING STORY

WYOMING IS A SMALL RURAL STATE THAT HAS NO LARGE POPULATION CENTERS.

We are the 9th largest state in terms of land mass but the least populated state.

The largest city in Wyoming has a 1990 census population of only 50,008, with no more than 35,000 access lines.

The total population of Wyoming is about 480,000 people with no more than about 250,000 access lines.

Of the 214,000 residential and simple business access lines served by U S WEST in Wyoming, 47,000 access lines are outside of the base rate area.

Intrastate retail revenues, including cellular, features, local, and intrastate toll, amount to about \$163,000,000 annually.

WYOMING HAS TAKEN APPROPRIATE STEPS TO ENCOURAGE COMPETITION.

We have developed and implemented long-run incremental costing rules and have approved cost studies and local rates based on forward-looking economic costs.

We are finalizing a rule to take switched access charges to long-run incremental cost.

We are finalizing network interconnection rules.

We are finalizing our decision on unbundled network elements and prices on a deaveraged basis in arbitration of a U S WEST / AT&T interconnection agreement.

We have implemented intrastate, intraLATA 1+ equal access toll dialing as of January 1, 1998.

We have completed or are in the process of rebalancing local rates to take them above cost. More than 90% of Wyoming's lines will have local rates above their forward-looking economic cost on a deaveraged basis, upon completion of pending case with decisions due before the year's end.

Networks have been successfully modernized. Wyoming has almost completed its transition to a fully digital switching and interoffice network.

We are finalizing extensive Quality of Service rules to aid in the provision of competitive telecommunications services.

Resale competition and facilities based competition in U S WEST areas is developing. Fourteen competitive local exchange providers have been certificated.

We have authorized and implemented a universal service fund which is explicit with both surcharges and support credits shown as line items on customer bills.

THE WYOMING STORY

WE ARE A HIGH COST STATE IN WHICH IMPLICIT SUBSIDIES ARE BEING SUCCESSFULLY ELIMINATED FROM RATES.

In 1998, one of our small independent local exchange carriers rebalanced its rates, based on economic costs, moving local rates from \$5.90 a month to \$45.08 per month and reducing switched access charges from about \$0.17 per minute to about \$0.015 per minute. (These rates recognize the current level of federal support.) Its affiliated company's rates were rebalanced and deaveraged by exchange, with the resulting rates ranging from \$27.31 per month to \$45.08 per month.

In 1998, another small Wyoming independent local exchange carrier moved its local rates from a level of about \$10 to a monthly rate, for both residential and business service, of \$40.95 plus mileage charges for customers outside the base rate area (recognizing current levels of federal support). The BCPM costs for this company ranged from \$61 per month to \$368 per month, deaveraged by exchange, with an average capped cost of \$89 per month.

U S WEST has filed a price plan requesting deaveraged, forward-looking economic cost-based local residential and business service prices ranging from \$23 per month in the base rate area to \$64.70 per month for the remotest customers. U S WEST proposes to reduce switched access from \$0.048 per minute to \$0.0075 per minute. Toll is proposed to be reduced from an average price per minute of about \$0.17 to about \$0.11 per minute. The economic costs underlying these rates are based on U S WEST specific models and inputs filed with the Wyoming Commission. The hearings in this case are scheduled to be completed by September 25, 1998.

Sprint has filed a price plan requesting deaveraged, forward-looking economic cost-based local prices ranging from \$32.76 to \$101.91 per month to replace the current local rate of about \$11.49 per month. It proposes to decrease switched access from about \$0.10 per minute to about \$0.014 per minute. The underlying economic costs are based on BCPM results using Sprint's Wyoming specific inputs which have been filed with the Wyoming Commission.

Finally, the geographic and demographic factors driving costs in Wyoming are very real and persistent. The high cost of service in Wyoming is therefore very durable and not subject to dramatic change.

THE WYOMING STORY

WYOMING HAS STEPPED UP TO ITS UNIVERSAL SERVICE FUND OBLIGATIONS.

The Wyoming Universal Service Fund has been up and running for more than a year.

The assessment needed to fund Wyoming USF obligations, given current levels of federal support, has grown from 1% to 2% to 6% with the latest level being ordered to accommodate the effects of price cases now pending before the Wyoming Commission.

The Wyoming Universal Service Fund provides support for all residential and business rates that exceed 130% of their respective statewide average rates. The current statewide weighted average residential rate is \$18.50 which translates to support for rates higher than approximately \$25. Considering the cost based rate proposals currently filed, the statewide average could quickly increase to about \$27.25 per month, supporting only those rates in excess of \$35.43 per month. None of these figures include any consideration of surcharges, subscriber line charges, and taxes, which customers must also pay and which might add \$5 to \$10 to the consumer's bill.

The Wyoming Universal Service Fund is already providing more than \$3 million of support on an annual basis to six local exchange companies in Wyoming.

The assessment is shown as a separate and explicit line item on customer bills and is assessed on a percentage basis to all Wyoming retail revenues and services that use the public switched network.

The support provided by the Wyoming fund is credited directly to customer bills and is shown as a separate, explicit line item on the bills.

In 1997, Wyoming performed an affordability survey that indicates if rates exceed \$25 or \$30 per month, customers will begin to seriously consider dropping off the network.